

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7575**

**BILL NUMBER:** HB 1523

**NOTE PREPARED:** Feb 21, 2003

**BILL AMENDED:** Feb 19, 2003

**SUBJECT:** Investment Selections.

**FIRST AUTHOR:** Rep. Dobis

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:**

**GENERAL**  
**X** **DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** (Amended) This bill directs the Board of Trustees of the Public Employees' Retirement Fund (PERF Board) to conduct a pilot program concerning implementation of a member's investment selection and the crediting of a member's contributions and earnings in the Fund for the Defined Contribution Plan of the Legislators' Retirement System. It requires the PERF Board to report the results of the pilot program to the Pension Management Oversight Commission.

**Effective Date:** (Amended) July 1, 2003.

**Explanation of State Expenditures:** *Summary:* NOTE: PERF has been asked to provide an updated estimate to reflect the cost of the bill only if the Defined Contribution Plan of the Legislators' Retirement System is involved. This information has not yet been received. When it is received, the fiscal note will be updated.

*Preliminary Estimate:* The estimated value of the Defined Contribution Plan of the Legislators' Retirement System is \$12 M as of February 1, 2003. If 30 basis points are used as a measure of cost, (see the cost for the Deferred Compensation Program below) the cost for the pilot program would be approximately \$36,000. In addition, comments by individuals familiar with record keeping for pension funds have said that some firms would waive the set-up costs just to secure the business.

*Background Information:* A basis point is a measurement of fluctuation in the current yield equal to 1/100th of 1% on bonds or bills. By way of comparison, the state's Deferred Compensation program pays about 30 basis points, or approximately \$1.5 M based on a \$500 M account value. It should be noted that the difference in the estimated costs has to do with the size of the funds involved and the specific functions to be performed by the record keeper.

**Explanation of State Revenues:** (Revised) The proposed changes will result in the Fund members receiving the contributions to their respective accounts earlier than under the current arrangement which credits

contributions received in one quarter at the end of the subsequent quarter. The State will have use of these funds for less time. The specific impact will depend upon the amount of contributions and any investment income.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Public Employees' Retirement Fund; Teachers' Retirement Fund.

**Local Agencies Affected:**

**Information Sources:** Mercer Consulting, 312-902-7858; Jeff Heinzmann, Legal Counsel, State Auditor's office. 233-1712; Patricia Gerrick, Chief Investment Officer, Public Employees' Retirement Fund, 234-1678.

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